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South Korean Agricultural Cooperatives 1961-1975

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There has been substantial change and growth in agricultural cooperatives in South Korea during the past two decades. This has included a major increase in the amount and variety of financial services they provide to rural areas. Unlike most low income countries, cooperatives in South Korea have played a major role in mobilizing voluntary financial deposits. In the following discussion we attempt to outline the nature of these financial services. Particular attention will be given to savings deposits and the role they play in cooperative development, as well as overall economic growth. Information on three primary cooperatives in South Korea is presented to illustrate the discussion.

Background on Agricultural Cooperatives in Korea

The present system of agricultural cooperatives in Korea is the result of an evolutionary process [Morrow and White]. In 1907 local financial organizations were established in rural areas to extend short-term credit and other cooperative services to farmers. A nationwide federation of these local organizations, called the Cooperative Federation of Financial Associations (CFFA), was created in 1933. Close government control of the Federation was maintained through appointed officials in key management positions. Not all of the rural cooperative activities were in-

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cluded in these financial organizations, however. The Korean Agricultural Association, founded in 1920, handled a number of cooperative activities such as marketing, distribution of inputs, and commodity storage. In 1945 many of these activities were turned over to the CFFA. In 1956, CFFA was combined with the Korean Agriculture Bank which dealt exclusively with institutional credit. Separate agricultural cooperatives were established in 1957. The Bank and the cooperatives, however, lacked close linkage, and there was a good deal of duplication and competition in their business activities.

The new government in 1961 placed special emphasis on improving financial services in rural areas. As part of this, the existing multipurpose agricultural cooperatives were established by merging the agricultural bank and the agricultural cooperatives. Currently, financial services for farmers in Korea are provided primarily by The National Agricultural Cooperative Federation (NACF) and associated county and township-level agricultural cooperatives.

The present cooperative system has three horizontal levels of organization: primary cooperatives at the township level, county cooperatives, and NACF at the national level. Horizontally, there are multipurpose cooperatives as well as special purpose cooperatives. In 1975 there were more than 2 million member farmers in over 1500 primary cooperatives and 141 special cooperatives. More than 80 percent of the farm households are members of primary cooperatives. The average primary cooperative has about 1200 members and special cooperatives are about half that large.

Currently, this cooperative system carries out a wide range of activities. These are aimed at improving the social and economic well-being of farmers. These activities include supplying farm inputs, marketing farm products, provision

of credit and savings deposit services, mutual insurance, technical assistance, and some education. These programs are closely tied to government agricultural development policies. Provision of financial services through the cooperative system has been one of the major techniques used by the government to implement its rural development strategy.

Agricultural Credit Services

The NACF and county cooperatives are allowed to conduct all types of banking business. This includes receiving deposits and making loans to farmers as well as non-farm individuals. Government loans directed at farmers are made only through the cooperative system. As can be noted in Table 1, in the early 1960's government funds and money borrowed from the Bank of Korea made up a large part of the loanable funds handled by the cooperatives. By the early 1970's, however, deposits in the cooperatives made up a majority of the loanable funds.

It can also be noted in Table 1 that the total volume of loanable funds in the agricultural cooperative system increased from about 17 billion current won in 1961 to about 485 billion current won in 1975. In real terms, this was more than a four-fold increase.^{1/} Expanded private savings deposits in the cooperatives provided a large part of this increased loanable funds. These funds were used mainly for loans to members of the cooperatives or for business operations in various parts of the agricultural cooperative system.

As can be noted in Table 2, the total value of new loans granted by the agricultural cooperative system also increased rapidly over the 1961 to 1975 period. In 1961 less than 7 billion won in new loans were granted. In 1975

^{1/} The Wholesale Price Index for all commodities in South Korea, 1970 = 100, went up from 35.1 in 1961 to 238.0 in 1975.

TABLE 1: Total Amount and Sources of Loanable Funds in
Agricultural Cooperatives in Korea 1961-1975

Year	Total Loanable Funds Million Current Won	Sources					
		Government Funds	Bank of Korea	Ag. Credit Debentures	Deposits Received	Foreign Loans	Coop's Own Funds
-----Percent of Total-----							
1961	16,911	57	18	2	20	-	3
1962	22,499	63	2	12	19	-	4
1963	27,727	55	12	8	20	-	5
1964	30,968	51	17	6	21	-	5
1965	44,200	33	37	20	24	-	4
1966	61,427	29	33	1	34	-	3
1967	73,391	26	33	Nil	38	-	3
1968	103,087	23	30	Nil	45	-	2
1969	158,221	26	21	Nil	48	4	1
1970	192,183	25	17	0	50	4	4
1971	212,636	24	19	0	51	2	4
1972	252,340	24	17	1	53	2	3
1973	312,889	21	19	1	54	1	4
1974	419,809	19	24	1	51	2	3
1975	484,600	16	12	N/A	53	1	N/A

Source: Various unpublished reports by NACF.

TABLE 2: Total Value of New Loans and Year-End Outstanding Balances on Loans by the Agricultural Cooperative Systems in South Korea 1961-1975

Year	Total Value of New Loans Made During Year	Outstanding Balance on Loans at Year-End	
		Total	Agricultural
----- (In Million Current Won) -----			
1961	6,611	N/A	N/A
1962	13,975	18,611	17,125
1963	19,704	19,704	18,285
1964	21,912	23,139	21,287
1965	32,032	23,259	21,717
1966	40,349	27,108	24,631
1967	62,551	34,377	29,249
1968	97,838	52,814	39,741
1969	151,973	84,413	64,133
1970	185,204	105,360	77,297
1971	222,412	123,068	88,266
1972	250,078	148,245	111,019
1973	287,562	164,400	121,108
1974	449,034	252,149	190,113
1975	554,562	284,107	220,576

Source: Unpublished records of the National Agricultural Cooperative Federation, Seoul, Korea.

this had increased to over 550 billion won. In real terms this was almost a 12-fold increase. It can also be noted in Table 2 that the year-end outstanding balances on total loans by the cooperative system increased at a slower pace. In 1962 less than 19 billion won were outstanding in total, and in 1975 this had increased to 284 billion won. In real terms this was a 2.4-fold increase. A larger proportion of the new loans made over the period were for a short term and were paid off by the year-end.

A large proportion of the loans made by the cooperative system were for agricultural purposes. In 1962 ninety-two percent of the value of outstanding balances were for agricultural loans. In 1974 this was lowered to 75 percent. In part, this increase in non-agricultural lending reflects the continued growth in rural areas of non-agricultural economic opportunities.

A clearer idea about the changing term structure of loans by the cooperative system can be drawn from Table 3. In 1962 less than one-quarter of the value of the loans made by cooperatives was for less than one year. Over one-third of the loan value was for a term of over 10 years. In 1974 over one-half of the loan value was in loans of less than one year in duration, and only 7 percent in loans of over 10 years in term. There was relatively little change in the proportion of loans of 1 to 10 years duration from 1962-1974. In major part, this was due to an interest compensation system whereby the government gave a subsidy to agricultural cooperatives on loans made for medium term. This program was begun in 1968.

One of the most interesting features of recent developmental policy in Korea is the major changes which have been made in nominal interest rates in formal financial markets. Prior to 1965, nominal interest rates in Korea were quite inflexible. Formal agricultural loans, for example, carried interest rates of approximately 8-15 percent per year. Rates paid on financial savings deposits

TABLE 3: The Proposition of Total Value of Agricultural Cooperative Loans Outstanding at Year End by Length of Term 1962-1974

Year	Under 1 Year Term	1 to 10 Year Term	Over 10 Year Term
1962	.24	.41	.35
1963	.23	.41	.36
1964	.25	.41	.34
1965	.31	.42	.27
1966	.37	.38	.25
1967	.39	.38	.23
1968	.42	.40	.18
1969	.36	.50	.14
1970	.38	.49	.13
1971	.44	.46	.10
1972	.45	.45	.10
1973	.44	.46	.10
1974	.54	.39	.07

Source: Unpublished records of the National Agricultural Cooperative Association, Seoul, Korea.

ranged from 9-15 percent. In September, 1965 many of the interest rates on formal loans and deposits were almost doubled. Time deposits of more than two years carried interest rates of 30 percent, for example. Since 1965 interest rate policies especially on deposits have been more flexible with rates moving up and down depending on inflationary pressures.^{2/}

As can be noted in Table 4, the interest rate reforms in the mid-1960's increased the average rate of interest charged on agricultural loans. In 1964 none of the agricultural loans made by the cooperatives carried interest rates of more than 25 percent per year. In 1966 about 9 percent of the value of cooperative loans carried rates of 25 percent or more. By 1968 almost 30 percent of the value of loans carried these higher interest rates. After 1968, interest rates were steadily lowered until 1973 when inflation induced policy makers to again raise interest rates.

Savings Deposits

Unlike many developing countries, rather heavy emphasis has been placed on mobilizing rural financial savings in Korea. In 1974, for example, an ambitious rural savings target of one trillion won in 1980 was set by the government. Three financial institutions, The Agricultural Cooperatives, The Fisheries Cooperatives and the Post Offices in rural areas will be heavily involved in this effort. Prior to this, a nationwide campaign to mobilize rural savings has been carried out almost annually during the harvest season from September to December.

During the early 1960's the agricultural cooperatives in Korea handled relatively small amounts of financial deposits. In 1961 the aggregate amount of demand and savings deposits in these cooperatives was only 3.5 billion won. As can

^{2/} There has been a substantial amount of analysis done on the results of these flexible interest rate policies. See Brown, Emery, Shaw and Kim for examples.

TABLE 4: The Proportion of the Total Value of Agricultural Cooperative Loans Outstanding at Year-End by Rates of Interest Charged 1962-1974

Yearly Interest Rate	1962	1964	1966	1968	1970	1972	1974
Less than 10%	.59	.53	.47	.47	.52	.62	.53
10 to 25%	.41	.47	.44	.24	.47	.38	.47
Over 25%	0	0	.09	.29	.01	0	0

Source: Unpublished records of the National Agricultural Cooperative Federation, Seoul, Korea.

be noted in Table 5, this amount increased to 6.5 billion won by the end of 1964. The Fishing Cooperatives had about 117 million in deposits, and postal savings in rural areas amounted to about one billion in that year. Overall financial deposits in these three institutions amounted to 7.6 billion won in 1964. As can be noted in the table, there was a sharp increase in financial deposits between 1964 and 1966. Total deposits more than tripled. This was due in part to the substantially higher interest rates offered on savings deposits. These higher interest rates were also associated with sharp increases in deposits from 1964 to 1974. In nominal terms, total deposits increased 35-fold over this period in these three institutions. In real terms this was almost a 12-fold increase in deposits. These increases in deposits were associated with significant changes at the farm-household level in the use of financial assets. In 1962, for example, representative farm-households held less than two percent of their assets in financial forms [Ro and others]. By 1974 this had increased to more than 3 percent. Farm-households made even larger changes in their holdings of liquid assets. In 1962 only 11 percent of their liquid assets were in financial form, but by 1974 this had increased to 26 percent.

As can be noted in Table 6, less than half of the deposits in the agricultural cooperatives prior to 1966 were in savings accounts. From 1966 to 1974, however, savings deposits made up approximately two-thirds of total deposits. The sharp increase in inflationary pressures in 1974 and 1975 combined with less aggressive interest rate policies caused financial savings to decrease relative to demand deposits.

Another interesting point stands out in Table 6. In most cooperatives around the world, involuntary share purchases by cooperative members provide a large part of the organization's operating funds. Share monies plus foreign or governmental assistance usually provide the bulk of loanable funds handled by the cooperatives. In Korea, however, share purchases are small in comparison with private

TABLE 5: Amount of Rural Deposits in Three Financial Institutions 1964-1974.

Year	Agricultural Cooperatives Million Current Won	Percent of Total %	Fishing Coop- eratives Million Current Won	Percent of Total %	Postal Savings Million Current Won	Percent of Total %	Total Million Current Won
1964	6,450	85	117	1	1,066	14	7,633
1966	20,948	87	56	Nil	3,112	13	24,116
1968	46,783	85	786	1	7,326	14	54,895
1970	95,417	83	5,685	5	14,103	12	115,205
1972	132,741	82	6,615	4	22,917	14	162,273
1974	215,852	80	15,005	6	37,140	14	267,997

Source: Unpublished records of the National Agricultural Cooperative Federation, Seoul, Korea.

TABLE 6: Amounts of Private Deposits and Value of Member-Share Purchases in Agricultural Cooperatives 1961-1975

Year	Deposits			Accumulated Share Purchases In			
	Demand Deposits	Savings Deposits	Total	NACF	County Coops	Primary Coops	Total
-Year End Balances In Million Current Won-							
1961	1,831	1,640	3,471	301	14	-	N/A
1962	2,946	1,304	4,250	306	330	-	N/A
1963	4,323	1,350	5,673	408	445	439	1,292
1964	4,702	1,748	6,450	414	469	996	1,879
1965	6,567	4,074	10,641	424	524	1,189	2,137
1966	7,586	13,362	20,948	439	583	1,596	2,618
1967	12,673	15,101	27,774	444	631	2,312	3,387
1968	20,144	26,639	46,783	446	715	2,787	3,948
1969	31,976	43,925	75,901	473	824	3,223	4,520
1970	39,209	56,207	95,417	520	1,060	4,678	6,258
1971	42,804	66,122	108,925	627	1,381	7,045	9,053
1972	56,516	76,225	132,741	917	2,032	11,532	14,481
1973	70,998	98,373	169,371	1,395	3,071	16,013	20,479
1974	98,529	117,323	215,852	2,372	4,870	24,116	31,358
1975	130,298	129,168	259,466	3,725	6,792	31,422	41,939

Source: National Agricultural Cooperative Federation (NACF), Agricultural Yearbooks, 1962-1975, Seoul, Korea. Also NACF, Agricultural Cooperative Monthly Review, various issues.

voluntary deposits. In 1974 the value of voluntary deposits in the agricultural cooperatives was over 5 times the value of share purchases in the cooperatives. This is more-or-less the same pattern found among the highly successful Farmers' Associations in Taiwan; financial deposits and not involuntary share purchases are the cornerstone of these institutions.

The heavy emphasis on interest rate incentives to mobilize financial savings resulted in some change in the term structure of voluntary deposits in the agricultural cooperatives. Higher interest rates were offered on longer term deposits. Before the major interest rate reform in September, 1965, time deposits of three, six, and twelve months-or-more were paid 9 percent, 12 percent and 15 percent respectively. These rates were raised to 18 percent, 24 percent, and 26.4 percent respectively after September, 1965. A new rate of 30 percent was offered for deposits of 18 months or more. These rates were slowly reduced over the 1968 to 1974 period (Table 7). The term structure of deposits in agricultural cooperatives is shown in Table 8 for 1968 to 1974. A most interesting point is the steady increase in the percentage of deposits held in time savings accounts of 2 years or more term. This lengthening term structure allowed the cooperatives to be more flexible in their credit operations.

Financial Services in Three Cooperatives

In order to further illustrate the importance of credit and deposit activities in cooperatives, three primary agricultural cooperatives were selected for more intensive study. Each was selected to represent cooperatives in one of the three main agricultural regions of South Korea. The first was Daeson Cooperative which is located in a mixed farming region. The second is the Chojeun Cooperative located in a horticultural area. The third is the Ochang Cooperative which is in a rice growing region.

TABLE 7: Distribution of Deposits in Agricultural Cooperatives by
Rate of Interest Paid on Deposits 1968-1974

Year	-Rates of Interest-					
	0 - 5	5.1 - 10	10.1 - 15	15.1 - 20	20.1 - 25	25.1 - 30
1968	49	-	5	-	14	32
1969	45	3	3	-	49	-
1970	44	3	2	-	51	-
1971	41	4	2	-	53	-
1972	49	2	49	-	-	-
1973	49	4	47	-	-	-
1974	50	3	44	3	-	-

Source: Unpublished records of the National Agricultural Cooperative Federation,
Seoul, Korea.

TABLE 8: Percentage of Deposits in Agricultural Cooperatives by Term Structure of Deposits 1968-1974

Year	Total Value of Deposits in Agricultural Cooperatives Million Current Won	Percent of Deposits With Terms of		
		Under 1 Year %	1 - 2 Years %	2 Years + %
1968	46,784	65	31	4
1969	75,902	62	32	6
1970	95,417	62	31	7
1971	108,926	58	34	8
1972	132,741	60	31	9
1973	169,371	61	26	13
1974	215,852	63	23	14

Source: Unpublished records of the National Agricultural Cooperative Federation, Seoul, Korea.

During the past ten years a large number of the primary cooperatives have been involved in substantial reorganization or consolidation. As a result, most of the current primary cooperatives have historical records which cover relatively short periods. As can be noted in Table 9, the Daeson Cooperative as presently constituted was founded in 1966, and the Chojeun and Ochang Cooperatives in 1969. It can also be noted that these cooperatives have relatively large memberships. The Daeson Cooperative has had about 1,000 members, the Chojeun Cooperative about double that, and the Ochang Cooperative about 2,500 members. As Owens and Shaw have pointed out, cooperatives need to have relatively large memberships to be able to realize economies of size in their operations. This is particularly true of financial services. It is impractical to offer credit and deposit services in cooperatives with small numbers of active members.

Credit Services

Information on the total value of loans outstanding at year-end by the three cooperatives is shown in Table 10. As can be noted, lending activities in all three cooperatives expanded at a rapid rate. In real terms, the amount loaned by the Daeson Cooperative increased 16-fold from 1966 to 1975. The Chojeun Cooperative experienced a real increase of 8-fold from 1969 to 1975, and the Ochang Cooperative a 29-fold real increase over the same period. Credit operations have grown to become a substantial part of the economic business of these three cooperatives. Detailed profit-loss information on the various activities carried out by these cooperatives was not available. It is likely, however, that credit-savings operations were providing a major part of "net income" generated by these cooperatives. As Adams and others report for Taiwanese Farmers Associations, these financial activities appear to be the economic cornerstone of many Korean cooperatives.

TABLE 9: Membership in Three Sample Agricultural Cooperatives in South Korea 1966-1975

Year	Daeson Coop. (Mixed Farming Area)	Chojeun Coop (Horticultural Area)	Ochang Coop. (Rice Area)
1966	979	-	-
1967	981	-	-
1968	975	-	-
1969	946	1287	2692
1970	1006	2185	2403
1971	1006	2173	2356
1972	1020	2069	2405
1973	1006	1802	2405
1974	1002	1802	2405
1975	966	1779	2527

Source: Unpublished records of the individual agricultural cooperatives.

TABLE 10: Total Value of Loans Outstanding at Year End in
Three Selected Agricultural Cooperatives 1966-1975

Primary Cooperatives			
Year	Daesan	Chojeun	Ochang
(In Million Current Won)			
1966	1.3	-	-
1967	1.1	-	-
1968	2.4	-	-
1969	2.5	12.1	6.3
1970	6.4	32.8	25.3
1971	18.0	68.6	63.7
1972	18.1	97.2	134.2
1973	42.8	128.5	168.2
1974	48.8	124.7	161.0
1975	65.7	260.2	472.0

Source: Unpublished records of three selected agricultural cooperatives.

Additional details on the types of loans made by these three cooperatives can be noted in Table 11. In 1975 about three-quarters of the total value of loans made were for unspecified purposes. Undoubtedly, a major part of this directly affected agricultural activities. Most of the remainder of the loans were tied specifically to farming. Very little of this lending has been done in kind. Granting relatively untied loans such as this is, of course, not very typical of cooperative lending activities in many low income countries.

Deposit Activities

The Daeson Cooperative began accepting financial deposits in 1966. As can be noted in Table 12, deposits in this cooperative increased substantially through 1975. Even more rapid increases occurred in financial deposits in the Chojeun and Ochang Cooperatives. In 1975 the three cooperatives had per-member deposits which average 291 thousand, 573 thousand, and 843 thousand won respectively. This amounted to the equivalent of approximately \$601, \$1,184, and \$1,742 dollars U.S. per member.

To encourage savings deposits in these cooperatives, various types of savings mobilization programs have been introduced in recent years. These include installment savings, deposits in kind, and mutual installment deposits. The mutual installment system is a mixture of the North American Credit Union approach to savings mobilization, and the traditional Korean Ke System [Kang]. Over the past few years the mutual credit-savings system has become a very important part of cooperatives' financial activities. As can be seen in Table 13, demand deposits made up about three quarters of total deposits in these three cooperatives. Fixed savings deposits were 20 percent of the deposits and the remainder was in other types of savings deposit programs.

TABLE 11: Aggregate Value of Loans Outstanding at Year End in Three Selected Agricultural Cooperatives by Type of Loan 1966-1975

Year	Types of Loans				
	Unspecified Loans	Farming Loans	Mutual Installment Depositor Loans	Installment Depositor Loans	Loans in Kind
(In Million Current Won)					
1966	-	1.2	*	-	-
1967	-	1.0	*	-	-
1968	-	1.6	.8	-	-
1969	9.7	1.5	1.0	2.4	-
1970	41.9	N/A	7.2	11.4	4.0
1971	104.4	25.2	4.4	11.6	4.7
1972	167.9	61.2	6.4	6.2	7.9
1973	190.2	138.4	10.8	-	-
1974	163.5	152.0	19.0	-	-
1975	611.1	160.6	26.3	-	-

Source: Unpublished records of three individual agricultural cooperatives.

* Less than 0.1 million won.

TABLE 12: Financial Deposits in the Three Sampled
Agricultural Cooperatives 1966-1975

Year	Primary Cooperatives		
	Daesan	Chojeun	Ochang
(In Million Current Won)			
1966	.5	-	-
1967	.7	-	-
1968	2.2	-	-
1969	2.4	4.9	5.3
1970	12.2	138.2	45.1
1971	14.9	201.9	142.3
1972	80.0	304.6	321.8
1973	118.3	420.4	539.8
1974	163.1	719.0	N/A
1975	281.4	1,007.0	2,130.7

Source: Unpublished records of the three agricultural cooperatives.

TABLE 13: Amounts of Deposits in Three Sample Agricultural Cooperatives
by Type of Deposit 1966-1975

Year	Demand Deposits	Fixed Deposits	Mutual Installment Deposits	Installment Deposits	Deposits in Kind and Other
(In Current Million Won)					
1966	-	-	.5	-	-
1967	-	-	.7	-	-
1968	-	-	2.2	-	-
1969	3.7	-	6.0	2.9	-
1970	152.3	-	8.6	27.8	6.8
1971	266.7	40.0	15.1	33.8	3.5
1972	564.3	73.2	24.8	29.1	15.0
1973	833.1	109.7	33.2	22.5	80.0
1974	984.0	110.5	43.3	19.0	8.3
1975	2580.0	694.0	94.2	23.7	27.2

Source: Unpublished records of the three sampled agricultural cooperatives.

As suggested earlier, share purchases by cooperative members make up an important, although minor part of the cooperatives' capital. In 1975, these three cooperatives held an average of 26 thousand won per member in share purchases. At the same time, these cooperatives held an average of 159 thousand won per member in deposits. Share purchases per member were only 16 percent of the value of voluntary savings deposits per member. The relatively small additions to share purchases in these three cooperatives can be seen in Table 14.

Cooperative Members Attitudes Toward Savings

To explore the attitudes of members toward savings deposits, interviews were carried out with a random sample of 120 individuals: 40 members of each of the three cooperatives. The interviews showed that almost all of the members (92 percent) had deposit accounts in either the cooperative, in a post office, or in both. Over one-third of those interviewed indicated they had opened a savings account at the urging of cooperative officials. In the Chojeun and Ochang Cooperatives, cooperative officials were instrumental in half or more of the savings accounts opened.

During the interviews the cooperative members were asked to identify the source of money used to make their most significant recent deposits. Not surprisingly, over half of them said crop or livestock receipts. About 20 percent reported non-farm or wage income as the source for the deposit. Another 13 percent reported frugal living as the source, and the remainder reported using money from several other sources.

The major motives for making deposits are shown in Table 15. As can be noted, about half of the deposits were motivated by farm or household operations. Members clearly had a strong liquidity-for-transactions-motive for making about half of their deposits. The other half of the deposits, however, appear to be closely

TABLE 14: Annual Increase in Value of Shares Purchased by Cooperative Members in Three Sampled Agricultural Cooperatives 1966-1975

Year	Primary Cooperatives		
	Daesan	Chojeun	Ochang
(In Million Current Won)			
1966	.7	-	-
1967	.8	-	-
1968	1.2	-	-
1969	2.2	5.0	5.9
1970	3.3	12.2	4.0
1971	5.8	19.8	4.3
1972	2.6	28.1	10.8
1973	3.3	36.1	4.6
1974	3.3	42.2	10.4
1975	5.2	47.9	6.7

Source: Unpublished records of three selected agricultural cooperatives.

TABLE 15: Major Motives for Making Financial Deposits
Among Interviewed Cooperative Members

Motive	Daesan Cooperative	Chojeun Cooperative	Ochang Cooperative	Total
-Percent of Respondents-				
Farm Operations	25	26	27	26
Purchase Household Goods	29	5	17	21
Education	20	58	34	32
Buy Land	18	11	17	16
Repay Debts	4	-	-	2
Finance Non-Farm Business	2	-	-	1
To Make Later Investments	$\frac{2}{100}$	$\frac{-}{100}$	$\frac{5}{100}$	$\frac{3}{100}$

Source: Individual interviews of sample of cooperative members.

tied to saving-investment decisions. About one-third of the deposits was motivated by educational plans, another 16 percent was planned for land purchases, and about 3 percent directed to some other type of investment. This strongly suggests that deposit behavior may be strongly influenced by the rates of return which depositors expect from financial savings or from the types of investments for which financial savings are assembled.

The increasing importance of deposits held in the three primary cooperatives by the members interviewed is shown in Table 16. In 1969, interviewed members held more than three-quarters of their financial deposits in post offices. In 1975, however, these same members held over 95 percent of their financial deposits in the primary cooperatives! It appears that the cooperative members now view the cooperative as a safe and convenient place to hold their financial assets. It is also an indication that Korean farmers are doing an increasingly larger share of their economic transaction with the cooperatives.

Conclusion

Several interesting lessons can be drawn from the recent experience with mobilizing rural savings in South Korea. The first is that well organized cooperatives can play a major role in mobilizing voluntary financial savings in rural areas. U Tun Wai has argued that three key elements are necessary before savings can be mobilized. First, people must have sufficient resources or income to be able to save. Second, individuals must have secure and dependable opportunities to save. Third, savers must expect that their savings will result in substantial future satisfaction -- they must have incentives to save. Agricultural cooperatives appear to have been particularly effective in providing secure and dependable opportunities for rural households to add voluntary financial savings to their asset portfolios.

TABLE 16: Amounts of Money Deposited in Primary Cooperatives and Post Offices by Cooperative Members Interviewed 1969-1975

Year	Primary Cooperatives	Post Offices	Total
(In Current Won)			
1969	7,311	23,311	30,622
1970	195,582	33,389	228,971
1971	359,067	56,423	415,490
1972	706,355	80,393	786,748
1973	1,078,519	72,117	1,150,636
1974	1,165,010	70,282	1,235,292
1975	3,418,993	125,330	3,544,323

Source: Interviews with sample of cooperative members.

The second major lesson which can be drawn is that government policies, especially interest rate policies, can strongly affect the ability of financial institutions like cooperatives to mobilize savings. These same policies can also strongly affect the incentives which rural households have to hold financial assets and to save in general, rather than consume. It should be no surprise that most rural cooperatives in low income countries mobilize very little voluntary or involuntary savings. Aside from a small number of cases, most cooperatives offer very low real rates of interest on financial deposits, and do not promote savings deposits. Many cooperatives act as retail outlets for credit and do not provide deposit services for members. Further, many cooperatives are too unstable financially to assure members that their savings deposits would be secure in the cooperative's care.

A third lesson suggested by the recent Korean experience is that low income rural people may have much larger potential savings capacities than here-to-fore recognized. Adams and others found that rural households included in the Annual Korean Farm Household Economy Survey saved surprisingly large parts of their income. In 1963 all households in the Survey saved an average of 12 percent of their household income. By 1974 this had increased to 33 percent. Even households with the smallest farms and households with the lowest incomes were saving significant amounts in certain years. In part, this substantial savings capacity was expressed because of interest rate policies, and because cooperatives and post offices were able to provide rural households with secure and inexpensive ways to save financially. Rural savers did not have to travel thirty miles, pay for costly transportation, and lose a day of work in order to make a financial deposit. Deposit facilities were conveniently located in rural areas and cooperative members could make deposits while they were transacting other business with the cooperatives.

A fourth lesson which might be learned from the recent Korean and Taiwan experience is the important role which rational credit-savings activities can play in building viable, small farmer service organizations like cooperatives. In all too many cases these organizations are called on to provide services initially in areas where they cannot compete efficiently. These include sale of consumption goods and production inputs, education and extension, and marketing of members' production. As Barton and several other authors have pointed out, informal marketing systems, or other government sponsored services, may in some cases be more efficient in providing these services than cooperatives. Furthermore, many cooperatives are forced to lend credit at highly concessional rates. These bargain rates induce influential borrowers to take large amounts of this cheap credit and also induces cooperatives to concentrate the loans in the hands of the influential in order to minimize lending costs. The net result of this is that many members or potential members of cooperatives are denied credit and as a result find it is not worth-their-while to be involved in cooperative activities. In both Korea and Taiwan, rural people appear to have strong incentives to join and participate in cooperatives because of the excellent financial services which they offer. Because of the savings mobilized and the realistic interest rate policies in force, many members of the cooperative have access to credit services. These same interest rate policies and the convenience of the cooperative make it attractive for members to make deposits. With realistic national policies, it appears that cooperatives can efficiently provide these financial services. These services not only strengthen the economic base of the cooperative, but also give members a strong reason for participating in other cooperative activities.

The current emphasis on small farmer development around the world provides an improved environment for doing innovative work in rural cooperatives. The recent Korean experience suggests that too little attention has been placed on using cooperatives to mobilize voluntary rural savings. We conclude that cooperatives can play a major role in this effort if appropriate national policies are adopted.

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